New Timor Gap treaty secures Australian control of oil and gas projects

By Mike Head
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The ceremony was not as spectacular as in 1989, but two Australian government ministers still led a champagne toast when they signed a new Timor Gap oil and gas treaty with East Timorese representatives last week. Australian Foreign Minister Alexander Downer held his glass aloft alongside East Timor's economic affairs spokesman Mari Alkatiri in scenes reminiscent of just over a decade ago, when one of Downer's predecessors, Gareth Evans, celebrated the original treaty with leaders of the Indonesian military regime.

In 1989, the champagne corks went off on board an Australian air force plane flying above the Timor Sea. Last week's toast was a more sedate affair conducted on the ground in Dili, the East Timorese capital. The Australian government had succeeded—after sending 4,000 troops to East Timor and then conducting 15 months of often bitter negotiations with the Timorese leadership—in preserving the essential content of the Timor Gap Treaty, which gave Australia effective control over most of the oil and gas reserves that lie beneath the Timor Sea.

Last week's agreement allows the East Timor administration 90 percent of the royalties from the shared zone of undersea exploration, compared to the 50-50 split arranged with the Suharto administration in 1989. The Howard government only agreed to the 90-10 split, however, on the condition that the East Timorese leadership forego its much more valuable territorial claim, strongly founded in international law, to almost the entire oil and gas field.

Under the internationally-recognised midpoint principle, the border between Australia and the yet-to-be-declared state of East Timor should be halfway between the two territories. Instead, the 1989 boundary, retained by last week's pact, allocated most of the continental shelf to Australia. The Indonesian junta made the concession in return for Australia being the only Western power to formally recognise Indonesian sovereignty over the former Portuguese colony.

According to estimates provided by the Australian government, the revamped agreement will produce royalty revenues of some $US3.5 billion for East Timor over 20 years from 2004, whereas Australia's share will be about $400 million. These payments will be dwarfed, however, by the proceeds expected to flow from Australia's control of the natural gas pipeline to northern Australia and the related processing plants. East Timor's UN-appointed Cabinet Member for Political Affairs and Timor Sea, former US diplomat Peter Galbraith, estimated that these projects will be worth $25 billion to Australia over the same two decades.

The Australian administration flatly rejected East Timor's request for a share of the tax revenues from the planned pipeline to Darwin, the capital of Australia's Northern Territory. It also refused to allow any renegotiation of the existing contracts with oil companies, which allow them extensive tax concessions. Moreover, Downer made it clear that Australia expects to retain overriding authority over the exploration zone. He rejected remarks by Timorese officials that the deal would give their country a greater say on how the area is developed. "I don't know that I would use the phrase greater control," he said. "They will have a considerable say and we will have a considerable say."

Welcoming the deal, Australian Prime Minister John Howard described it as a "good and generous arrangement" for East Timor, "a struggling, poor country". Labor Party leader Kim Beazley echoed him, claiming credit for urging the government to negotiate a "generous outcome". When talks opened last year, Canberra originally demanded a 40 percent share of the royalties and only reduced its claim to 10 percent in recent weeks after Galbraith and other members of the UN Transitional Authority in East Timor (UNTAET) threatened to go to the International Court of Justice over the boundary issue.

Far from being magnanimous, the Howard government revised its offer because it was anxious to finalise the agreement before mid-July, a deadline set by the major oil companies with investments in the Timor Sea, notably the US-owned Phillips Petroleum, the British-Dutch giant Shell and the Australian-controlled Woodside Petroleum. These companies had warned that further delay, and even worse, protracted international litigation, could force them to walk away from their planned projects. In the lead-up to the resumption of the treaty negotiations in April this year, Downer made thinly-veiled threats to cut Australia aid to East Timor if UNTAET continued to demand a redrawn border.

Now that the deal has been struck, various consortia are likely to proceed with developments costing an estimated $8 billion, most of which will solely benefit Australian businesses, particularly in the Northern Territory. The Territory's Resource Development Minister Daryl Manzie declared that the deal heralded a new level of economic development for the Territory. His federal counterpart, Industry Minister Nick Minchin, attended the signing ceremony, underscoring its perceived significance for Australian big business.

The spin-offs will include two gas-processing plants in Darwin—separate liquefied natural gas and methanol plants—and a major pipeline linking Darwin to southern Australia. Phillips will control the LNG plant and Methanex Corp., will own the $800 million methanol plant. Two groups are competing to build a pipeline to the south—the US-owned Epic Energy and the Australian Pipeline Trust, led by the Australian Gas Light Company.

An *Australian Financial Review* correspondent Geoffrey Barker commented: "The main sweeteners offered by Australia to wrap up the agreement were financially insignificant compared with the downstream benefits to Australia from the construction of the pipeline and planned methanol and liquefied natural gas plants in Darwin."

The Howard government also feared that a legal contest over the border with East Timor could open the door for a parallel challenge from Indonesia, whose Suharto regime signed a similarly unequal boundary treaty with Australia in 1972. If the Indonesian-Australian seabed border were redrawn according to the midpoint principle, it would affect a much wider area of potential oil and gas reserves, of which the Timor Gap is only the centrepiece. The Melbourne *Age* last year reported that the larger area is thought to contain approximately 15 trillion cubic feet of gas, about twice the reserves of the nearby North West Shelf, currently Australia's largest underwater field.

A final factor in the Australian government's calculations was that the royalty payments would reduce its foreign aid bill to East Timor—currently a meagre $A150 million over four years. With UNTAET scheduled to depart sometime within the next year, following elections for a Constituent Assembly on August 30, Australian ruling circles want to ensure that the Timorese leadership has some resources in order to contain social unrest and prevent political instability.

An *Australian Financial Review* editorial spelt out these considerations: "As East Timor's security guarantor and likely aid donor of last resort it makes sense for Australia to give the new country the best chance of establishing a sustainable economy which is decreasingly dependent on aid."

For its part, the East Timorese leadership of Xanana Gusmao and Jose Ramos Horta set out to prove its reliability as a guarantor of Western interests. According to the *Financial Review*, Horta played a critical role in the final phase of the negotiations, prevailing upon Galbraith to drop the demand for a new border. The newspaper's editorial praised the Timorese leaders for being "wise" in accepting the deal rather than trying to obtain a revised seabed boundary.

Their agreement will mean that, despite its considerable energy reserves, East Timor will be reliant on expensive imported diesel, with one Australian group, Timor Aid, estimating that the likely consumption of 5 million tonnes over 30 years will cost the tiny state more than $US1.1 billion. One Timorese politician, Angela Maria da Silva da Frietas of the Labor Party, has already accused the Timorese and Australian leaders of selling the country out.

Representatives of both administrations and various media commentators defended the deal as a "win-win" outcome. Horta, in particular, held out the hope that it would provide cash to create jobs for Timor's growing numbers of unemployed youth and "stabilise the situation politically". These hopes are likely to be dashed. In the first place, the $175 million a year in royalty payments will not sustain even the limited reconstruction that has taken place under UN rule.

More fundamentally, the small Timorese elite will inevitably siphon off the benefits of the Timor Gap revenues. By protecting the interests of the oil companies and Australian investors, the Timorese leadership has again underscored its commitment to a capitalist market economy that will necessarily enrich a few at the expense of the majority.

With the signing of the 2001 Timor Gap Agreement, the Australian government has reaped the rewards of its 1999 military intervention. Its motives were far from the humanitarian claims used to drum up public support for the operation. After 24 years of supporting the 1975 Indonesian invasion of the half-island, the authorities in Canberra shifted their position following the fall of Suharto to support East Timorese secession. One thing did not alter. Their primary concern remained that of protecting the oil and gas and other interests of corporate Australia as well as shoring up Australia's broader strategic interests in the region.